During 2007, there have not been any defaults in the payment of principal or interest, or any other material default relating to the indebtedness of Ericsson.

For further information on objectives, policies and strategies for financial risk management, see notes to the Consolidated Financial Statements—Note C14, Trade Receivables and Customer Financing, Note C19, Interest–Bearing Liabilities and Note C20, Financial Risk Management and Financial Instruments.

Financial Reporting Risks

To ensure accurate and timely reporting that is compliant with financial reporting standards and stock market regulations, we have adopted accounting policies and implemented financial reporting and disclosure processes and controls. Please refer to the report on internal control over financial reporting, included in our corporate Governance report.

Compliance Risks

The Company have implemented a number of policies to ensure compliance with applicable laws and regulations, including a Code of Business Ethics, covering among other areas: labor laws, trade embargoes, environmental regulations, corruption, fraud and insider trading. Regular training is conducted in this area in the form of seminars as well as e–learning on internal training web sites where employees take courses and tests and get certificates for passed courses.

Internal audits are routinely conducted in the areas of trade compliance, fraud, security, health and safety, the environment and supply chain management. During 2007, the company also included audits of the internal implementation of the code of Conduct.

CORPORATE RESPONSIBILITY

Corporate Responsibility (CR) is about integrating the environmental, social and ethical imperatives into the way the Company works and throughout its value chain. The Company ensures that it has the controls in place to minimize risks and also strives to generate positive business impacts by connecting the core business to the betterment of society. Ericsson believes this leads to an enduring capability for value creation as well as a competitive advantage.

Ericsson supports the UN Global Compact and its ten guiding principles. The Company sees these principles not only as guiding principles, but also as a prerequisite for sound, long–term business. As such, Ericsson is committed to responsible business practices for sustainable economic growth from which all the Company's stakeholders benefit. This commitment to employees, customers, shareholders and the broader global community is underscored by external recognition of the Company's efforts. During 2007, ericsson was again included in the FTSE 4Good and was the only company in its sector to be noted on the carbon Disclosure project's (CDP) global leadership index, and ranked 3rd overall on the CDP's Nordic Index.

Ericsson publishes a separate corporate responsibility Report annually, which provides comprehensive information about the Company's corporate responsibility and related activities.

Human Rights

Ericsson believes that publicly available and affordable telecommunications is a fundamental prerequisite for social and economic development. as one of the world's largest providers of communications equipment and services, the Company plays a vital role in achieving this objective, especially in emerging markets. Ericsson

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

PRIMARY SEGMENTS

Ericsson has the following business segments:

- Networks, that includes products for mobile and fixed broadband access, core networks, transmission and next–generation IP–networks. Related network rollout services are also included. In addition, power modules and cables operations are included within Networks, as well as the acquired operations of Redback and Entrisphere.
- Professional Services, that includes all service operations, excluding Network rollout reported under Networks. Services related to systems integration of IP– and core networks are classified as Professional Services.
- Multimedia, that includes multimedia systems, enterprise solutions and mobile platforms. The operations of the acquired operations of Tandberg TV, LHS, Drutt and Mobeon are also included in Multimedia.
- Phones, consisting of Ericsson's investment and share in earnings of the Sony Ericsson joint venture.

SECONDARY SEGMENTS

Ericsson operates in five main geographical areas: (1) Western Europe, (2) Central and Eastern Europe, Middle East and Africa, (3) Asia Pacific, (4) North America and (5) Latin America. These areas represent the geographical segments.

BUSINESS SEGMENTS (PRIMARY)

2007	Networks	Professional Services	Multimedia	Phones	Unallocated	Eliminations	Group
Net sales	128,985	42,892	15,903	—	—	—	187,780
Inter–segment sales	32	10	2	—	—	−44	0
Total net sales	**129,017**	**42,902**	**15,905**	**—**	**—**	**−44**	**187,780**
Share in earnings of JV and associated companies	61	66	−3	7,108	—	—	7,232
Operating income	**17,398**	**6,394**	**−135**	**7,108**	**−119**	**—**	**30,646**
Operating margin (%)	13%	15%	−1%	—	—	—	16%
Financial income							1,778
Financial expenses							−1,695
Income after financial items							**30,729**
Taxes							−8,594
Net income							**22,135**
Assets 1)2)	107,819	36,974	18,739	—	70,682	—	234,214
Equity in joint ventures and associated companies	850	298	206	9,549	—	—	10,903
Total assets	**108,669**	**37,272**	**18,945**	**9,549**	**70,682**	**—**	**245,117**
Liabilities 3)4)	**39,819**	**19,101**	**4,915**	**—**	**46,230**	**—**	**110,065**

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

1) Segment assets include property, plant and equipment, intangible assets, current and non–current customer financing, accounts receivable, inventory, prepaid expenses, accrued revenues, derivatives and other current assets.
2) Unallocated assets include mainly cash and cash equivalents, short–term investments and deferred tax assets.
3) Segment liabilities include accounts payable, provisions, accrued expenses and deferred revenues, advances from customers and other current liabilities.
4) Unallocated liabilities include accrued interests, tax liabilities, interest–bearing liabilities and post–employment benefits.

Other segment items

2007	Networks	Professional Services	Multimedia	Phones	Unallocated	Eliminations	Group
Property, plant and equipment and intangible assets							
Additions to property plant and equipment	3,264	806	249	—	—	—	4,319
Acquisitions/capitalization of intangible assets	15,401	2,973	11,464	—	—	—	29,838
Depreciation	−2,601	−367	−152	—	−1	—	−3,121
Amortization	−4,630	−237	−566	—	—	—	−5,433
Impairment losses	−105	−1	—	—	—	—	−106
Reversals of impairment losses	297	—	—	—	—	—	297
Gains/losses from divestments	—	—	—	—	280	—	280

GEOGRAPHICAL SEGMENTS (SECONDARY)

2007	Net sales	Total assets	Additions/ capitalization of PP&E and intangible assets
Western Europe	52,685	160,606	12,127
—*of which Sweden*	*8,395*	*117,887*	*2,671*
Central and Eastern Europe, Middle East and Africa	48,661	10,737	230
Asia Pacific	54,629	26,852	1,124
—*of which China*	*13,598*	*9,915*	*704*
North America	13,422	32,815	20,528
—*of which United States*	*10,529*	*31,573*	*17,668*
Latin America	18,383	14,107	148
Total	**187,780**	**245,117**	**34,157**
—*of which EU*	*58,978*	*161,251*	*10,609*

For employee information, see note C29, "Information Regarding Employees, Members of the Board of Directors and Management".

joined the Business Leaders' Initiative on Human rights (BLIHR) in 2006. BLIHR aims to find practical applications of the universal Declaration of Human rights within a business context and to inspire other businesses to do likewise. Ericsson's participation in BLIHR reinforces a longstanding commitment to human rights and corporate responsibility activities.

Ericsson has undertaken a number of measures to demonstrate that it is a force for good in emerging markets. For example, during 2007 Ericsson commissioned McGrigors Rights, an independent third party, to perform a Human Rights Impact Assessment on Ericsson's operations in Sudan. Overall it was concluded that Ericsson can demonstrate non–complicity in human rights abuses and convincing "substantial actions" for investors and concerned stakeholders regarding its business operations in Sudan. The full results are presented in Ericsson's 2007 corporate responsibility report. it should be noted that Ericsson is not included on the Sudan Divestment Task Force's list of divestment targets.

Community Involvement

The Company is committed to being a responsible member of the global society and of the local communities in which it operates. During 2007, a CR sponsorship Directive was established to ensure that all CR sponsorships are connected to the use of telecommunications to support social and/or environmental causes.

Ericsson believes that telecommunication, by its very nature, has a constructive role to play in the proactive engagement in local economic, environmental and social challenges. Ericsson is encouraging economic growth in emerging markets through its communication for all program.

Ericsson Response is a global initiative to rapidly provide IT, communication solutions and telecom experts anywhere in the world in response to human suffering caused by disasters. Ericsson response assists the disaster relief operations of the UN Office for the Coordination of Humanitarian Affairs (OCHA), UN World Food Programme (WFP) and the International Federation of Red Cross and Red Crescent Societies (IFRC).

During 2007, after an earthquake in Peru, Ericsson Response provided support to the relief operation in cooperation with IFRC. In cooperation with the Swedish rescue services agency (SRSA), Ericsson Response supported the UN in the establishment of operational offices in the Central African Republic. In addition, Ericsson was the winner of the 2007 PMI (Project Management Institute) Community Advancement Through Project Management Award.

Employees are encouraged and empowered to make positive individual contributions to the world around them. Their contributions take many forms, determined by the employees according to local needs. for example, they may be in the fields of health care, social and humanitarian aid, scholarships and other educational support, art and culture, the environment or children's welfare as well as many other activities.

Energy and Environment

Ericsson's most significant environmental impact relates to the energy consumed by the operation of its products during their active life time. The Company has set ambitious targets in this area. By the end of 2008, the Company intends to improve the energy efficiency of its 3G/WCDMA radio base station portfolio by up to 80 percent, from a 2001 baseline. Performance on annual improvement targets is included in the Corporate Responsibility Report.

The Company continues to work actively in developing energy efficient products and green site solutions, including solar, wind, fuel cell and biofuel technologies. Ericsson introduced a number of innovative hardware and software solutions during the year, including the radio base station power saving feature, and the Ericsson Tower Tube—a completely new, environmentally designed, site concept.

During 2007, Ericsson was awarded both the Elektra European Electronic Industry Clean Design award for its energy efficient power modules and the Energy–Efficiency Innovation award by the China Center for Information Industry Development (CCID).

We believe that the Company is in compliance with all material environmental, health and safety laws and regulations required by its operations and business activities. Ericsson provides public information on radio waves and health and supports independent research to further increase knowledge in this area. Ericsson currently co–sponsors more than 45 different ongoing research projects related to electromagnetic fields (EMF), radio waves and health. Since 1996 the Company has supported more than 90 studies. Public health authorities and independent expert groups have reviewed the total amount of research. They have consistently concluded that the balance of evidence does not demonstrate any health effects associated with radio wave exposure from either mobile phones or radio base stations.

From August 13, 2005, Ericsson has complied with the EU Directive on Waste Electrical and Electronic Equipment (WEEE). Ericsson's global end–of–life treatment program is called the Ecology Management Provision, and was initiated three years before the WEEE requirements became law in the EU. This proactive approach gives Ericsson an effective tool to meet waste–management challenges in all markets around the world. From July 1, 2006, Ericsson is in compliance with the EU Directive on Reduction of Hazardous Substances (RoHS). Ericsson is assessing the effects of the June 1, 2007, European Community's REACH (Registration, Evaluation, Authorization and limitation of Chemicals) regulation to ensure timely compliance with its requirements.

Employees

Every year, an employee opinion survey is conducted with a high level of employee participation. The continued high participation rate of 90 percent reflects employee recognition that management actively uses the survey as a tool to further develop the workforce satisfaction and performance. Management's main ambition going forward is to sustain the current level of excellence and encourage an even higher level of employee participation.

Employee headcount at year–end was 74,011 (63,781). Most of the additions were due to acquisitions of Redback, Tandberg and LHS as well as part of outsourcing agreements with operators to support the growing managed services business. During the year, 6,657 (6,432) employees departed while 16,887 (14,158) joined the Company. Please see Notes to the Consolidated Financial Statements—Note C29, Information Regarding Employees, Members of the Board of Directors and Management.

Executive Remuneration

The Board, through its Remuneration Committee continues to be mindful of the debates around the world on executive salaries and benefits. We remain confident that current policies and practices concerning authorization, compliance and control of senior executive remuneration within Ericsson are appropriate and reasonable. Principles for remuneration and other employment terms for top executives were approved by the Annual General Meeting 2007 and are further described in Notes to the Consolidated Financial Statements—Note C29, Information Regarding Employees, Members of the Board of Directors and Management.

The proposed remuneration policy for Group Management for 2008 remains materially the same as the policy resolved by shareholders for 2007, which is described in Note 29.

The Board of Directors' proposal for implementation of a Long Term Variable compensation plan for 2007 and transfer of shares in connection therewith was not approved by shareholders at the Annual General Meeting on April 11, 2007. At a subsequent Extraordinary General Meeting on June 28, 2007, Ericsson shareholders

agreed and approved a slightly modified Long Term Variable Compensation Program 2007 for all employees. As of December 31, 2007, there were no loans outstanding from, and no guarantees issued to or assumed by Ericsson for the benefit of any member of the Board of Directors or senior management. Please see Notes to the Consolidated Financial Statements—Note C29, Information Regarding Employees, Members of the Board of Directors and Management.

LEGAL AND TAX PROCEEDINGS

In the fall of 2007, Ericsson was named as a defendant in three putative class action suits filed in the United States District Court for the Southern District of New York. The complaints allege violations of the United States securities laws principally in connection with Ericsson's October 2007 profit warning. At the conclusion of various pending procedural motions and after plaintiffs file a consolidated amended class action complaint, Ericsson intends to seek the dismissal of the lawsuits.

Following issuance of the third–quarter profit warning, the OMX Nordic Exchange Stockholm brought an inquiry to determine whether the Company appropriately issued the profit warning and made appropriate disclosure at the November 20 management briefing. The Company believes it has complied fully with all stock market and other obligations, and is cooperating fully with the inquiry. The Financial Services Authority in England has initiated a similar inquiry.

Ericsson, Sony Ericsson Mobile Communications and the Korean handset manufacturer Samsung have settled the companies' multiple patent litigations in the US, UK, Germany and the Netherlands, including the proceedings in the US International Trade Commission (ITC) under Section 337 of the Tariff Act of 1930.

In October 2005, Ericsson filed a complaint with the European Commission requesting that it investigate and stop US–based Qualcomm's anti–competitive conduct in the licensing of essential patents for 3G mobile technology. At the same time, Broadcom, NEC, Nokia, Panasonic Mobile Communications and Texas Instruments each filed similar complaints claiming Qualcomm is violating EU competition law and failing to meet the commitments Qualcomm made to international standardization bodies around the world that it would license its technology on fair, reasonable and non–discriminatory terms. The Commission opened a first–phase investigation in December of 2005. In August 2007, it decided to conduct an in–depth investigation of the case as a matter of priority.

Together with most of the mobile communications industry, Ericsson has been named as a defendant in six class action lawsuits in the United States where plaintiffs alleged that adverse health effects could be associated with the use of mobile phones. In 2006, plaintiffs voluntarily dismissed four of those lawsuits. The two remaining cases are currently pending in the federal court in Pennsylvania and the Superior Court of the District of Columbia.

In another suit filed in the US, Freedom Wireless inc., a technology company, sued Cingular Wireless LLC and Ericsson claiming the two defendants built their prepaid wireless telephone service on Freedom Wireless' patents that allow mobile telephone customers to purchase increments of airtime for any mobile phone.

Ericsson is engaged in litigation with an Australian company, QPSX, in the Federal Court of Australia. QPSX's claim relates to an alleged breach by Ericsson of a patent license agreement. Ericsson has contested the claim. In April 2007, QPSX filed a patent infringement lawsuit against Ericsson et al. in the Eastern District of Texas alleging Ericsson infringed a QPSX patent related to asynchronous transfer mode ("ATM") technology.

In December 2006, the Stockholm City Court acquitted all current or former employees of the Parent Company who had been indicted by the Swedish National Economics Crimes Bureau for evasion of tax control. This judgment has in part been appealed by the prosecutor. The Svea Court of Appeals will hold its main hearing in the first half of 2008.

For income tax purposes, Swedish fiscal authorities have disallowed deductions for sales commission payments via external service companies to sales agents in certain countries. Most of these taxes have already been paid. The decision covering the fiscal year 1999 was appealed. In December 2006, the County Administrative Court in Stockholm rendered a judgment in favor of the fiscal authorities. Also this judgment has been appealed.

PARENT COMPANY

The Parent Company business consists mainly of corporate management, holding company functions and internal banking activities. The Parent Company business also includes customer credit management, performed on a commission basis by Ericsson Credit AB.

The Parent Company is the owner of the majority of Ericsson's intellectual property rights. It manages the patent portfolio, including patent applications, licensing and cross–licensing of patents and defending of patents in litigations.

The Parent Company has 7 (7) branch offices. In total, the Group has 55 (51) branch and representative offices.

Net sales for the year were SEK 3.2 (2.6) billion and income after financial items was SEK 14.7 (13.6) billion. Patent license fees are included in net sales from 2007, instead of in other operating income and expenses. Prior years have been restated accordingly. Exports accounted for 59 percent of net sales in 2007 (63 percent of adjusted net sales in 2006). No consolidated companies were customers of the Parent Company's sales in 2007 or 2006, while 46 percent (29 percent in 2006) of the Company's total purchases of goods and services were from such companies. Major changes in the Parent Company's financial position for the year include increased investments in subsidiaries of SEK 30.3 billion, mostly attributable to the Tandberg, Redback, Entrisphere and LHS acquisitions; decreased other current receivables of SEK 2.2 billion; decreased cash and bank and short–term investments of SEK 8.4 billion; increased notes and bond loans of SEK 11.1 billion through the bond issue program; and increased current and non–current liabilities to subsidiaries increased by SEK 4.7 billion. At year–end, cash and bank and short–term investments amounted to SEK 45.6 (54.0) billion.

As per December 31, 2007, Ericsson had 16,132,258,678 shares. The shares were divided into 1,308,779,918 Class A shares, each carrying one vote, and 14,823,478,760 Class B shares, each carrying one–tenth of one vote. The two largest shareholders at year–end were Investor and Industrivärden holding 19.49 percent and 13.36 percent respectively of the voting rights in the Company.

In accordance with the conditions of the Stock Purchase Plans and Option Plans for Ericsson employees, 19,022,349 shares from treasury stock were sold or distributed to employees during the year. The quota value of these shares is SEK 19.0 million, representing less than 1 percent of capital stock, and compensation received amounted to SEK 103.7 million. The holding of treasury stock at December 31, 2007, was 231,991,543 Class B shares. The quota value of these shares is SEK 232.0 million, representing 1 percent of capital stock and related acquisition cost amounts to SEK 516.2 million.

PROPOSED DISPOSITION OF EARNINGS

The Board of Directors proposes that a dividend of SEK 0.50 (0.50) per share be paid to shareholders duly registered on the record date of April 14, 2008, and that the Company shall retain the remaining part of non–restricted equity. The Class B treasury shares held by the Parent Company are not entitled to receive a dividend.

Assuming that no treasury shares remain within the Company on the record date, the Board of Directors proposes that earnings be distributed as follows:

Amount to be paid to the shareholders	SEK 8,066,129,339
Amount to be retained by the Parent Company	SEK 27,158,601,830
Total non–restricted equity of the Parent Company	SEK 35,224,731,169

As a basis for its proposal for a dividend, the Board of Directors has made an assessment in accordance with Chapter 18, Section 4 of the Swedish Companies Act of the Parent Company's and the Group's need for financial resources as well as the Parent Company's and the Group's liquidity, financial position in other respects and long–term ability to meet their commitments. The Group reports an equity ratio of 55.1 (56.2) percent and net cash amounts to SEK 24.3 (40.7) billion.

The Board of Directors has also considered the Parent Company's result and financial position and the Group's position in general. In this respect, the Board of Directors has taken into account known commitments that may have an impact on the financial positions of the Parent Company and its subsidiaries.

The proposed dividend does not limit the Group's ability to make investments or raise funds, and it is our assessment that the proposed dividend is well–balanced considering the nature, scope and risks of the business activities as well as the capital requirements for the Parent Company and the Group.

POST–CLOSING EVENTS

Divestment of enterprise PBX solutions

On February 18,2008, Ericsson announced the divestment of its enterprise PBX solutions business to the Canadian company Aastra Technologies. The agreement involves transfer of approximately 630 employees of which some 360 are based in Sweden. The transaction is expected to close in April 2008.

Ericsson's enterprise PBX solutions business includes IP PBX, converged PBX systems and branch office solutions. Sales in 2007 amounted to approximately SEK 3 billion. The purchase price is SEK 650 million excluding net of assets and liabilities. A capital gain of approximately SEK 200 million is expected.

On March 19, 2008, Sony Ericsson announced that moderating sales growth of mobile phone units is expected to negatively impact net sales and net income before tax for the first quarter of 2008. Sony Ericsson further announced that it expects gross margin to remain relatively stable for the first quarter of 2008 compared with the first quarter of 2007.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders of Telefonaktiebolaget LM Ericsson (publ):

We have completed integrated audits of Telefonaktiebolaget LM Ericsson (publ)'s 2007 and 2006 consolidated financial statements and of its internal control over financial reporting as of December 31, 2007, and 2006, and an audit of its 2005 consolidated financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Our opinions, based on our audits, are presented below.

Consolidated financial statements

In our opinion, the accompanying consolidated balance sheets and the related consolidated income statements, statements of recognized income and expense and cash flow statements present fairly, in all material respects, the financial position of Telefonaktiebolaget LM Ericsson and its subsidiaries at December 31, 2007, and December 31, 2006, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2007, in conformity with International Financial Reporting Standards as issued by International Accounting Standards Board and in conformity with International Financial Reporting Standards as adopted by the European union. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

Internal control over financial reporting

Also, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31 2007, based on criteria established in Internal Control—Integrated Framework issued by the Committee of sponsoring organizations of the tradeway commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting appearing under item 15(b) of the Annual Report on Form 20-F. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our integrated audit. We conducted our audit of internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. An audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable

assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Stockholm, April 16, 2008
PricewaterhouseCoopers AB

CONSOLIDATED INCOME STATEMENT

Years ended December 31, SEK million	Notes	2007	2006[1)]	2005[1)]
Net sales	C3, C4	187,780	179,821	153,222
Cost of sales		–114,059	–104,875	–82,764
Gross margin		73,721	74,946	70,458
Research and development expenses		–28,842	–27,533	–24,059
Selling and administrative expenses		–23,199	–21,422	–16,800
Operating expenses		–52,041	–48,955	–40,859
Other operating income and expenses	C6	1,734	3,903	1,090
Share in earnings of joint ventures and associated companies	C12	7,232	5,934	2,395
Operating income		30,646	35,828	33,084
Financial income	C7	1,778	1,954	2,653
Financial expenses	C7	–1,695	–1,789	–2,402
Income after financial items		30,729	35,993	33,335
Taxes	C8	–8,594	–9,557	–8,875
Net income		22,135	26,436	24,460
Net income attributable to:				
Stockholders of the Parent Company		21,836	26,251	24,315
Minority interest		299	185	145
Other information				
Average number of shares, basic (million)	C9	15,891	15,871	15,843
Earnings per share attributable to stockholders of the Parent Company, basic (SEK)	C9	1.37	1.65	1.53
Earnings per share attributable to stockholders of the Parent Company, diluted (SEK)	C9	1.37	1.65	1.53

1) Revenues for intellectual property rights (IPR) related to products are included in Net sales instead of Other operating income. In 2006, SEK 2,038 million (SEK 1,400 million in 2005) of Other operating income were reclassified. Accordingly, the related cost previously reported as part of Research and development expenses is reported as Cost of sales or Selling and administrative expenses, depending on the nature of the cost. In 2006, SEK 388 million (SEK 395 million in 2005) of the costs were reclassified.

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CONSOLIDATED BALANCE SHEET

December 31, SEK million	Notes	2007	2006
ASSETS			
Non–current assets			
Intangible assets	C10		
Capitalized development expenses		**3,661**	4,995
Goodwill		**22,826**	6,824
Intellectual property rights, brands and other intangible assets		**23,958**	15,649
Property, plant and equipment	C11, C26, C27	**9,304**	7,881
Financial assets			
Equity in joint ventures and associated companies	C12	**10,903**	9,409
Other investments in shares and participations	C12	**738**	721
Customer financing, non–current	C12	**1,012**	1,921
Other financial assets, non–current	C12	**2,918**	2,409
Deferred tax assets	C8	**11,690**	13,564
		87,010	63,373
Current assets			
Inventories	C13	**22,475**	21,470
Trade receivables	C14	**60,492**	51,070
Customer financing, current		**2,362**	1,735
Other current receivables	C15	**15,062**	15,012
Short–term investments	C20	**29,406**	32,311
Cash and cash equivalents	C20	**28,310**	29,969
		158,107	151,567
Total assets		**245,117**	**214,940**
EQUITY AND LIABILITIES			
Equity			
Stockholders' equity	C16	**134,112**	120,113
Minority interest in equity of subsidiaries	C16	**940**	782
		135,052	120,895
Non–current liabilities			
Post–employment benefits	C17	**6,188**	6,968
Provisions, non–current	C18	**368**	602
Deferred tax liabilities	C8	**2,799**	382
Borrowings, non–current	C19, C20	**21,320**	12,904
Other non–current liabilities		**1,714**	2,868
		32,389	23,724
Current liabilities			
Provisions, current	C18	**9,358**	13,280
Borrowings, current	C19, C20	**5,896**	1,680
Trade payables	C22	**17,427**	18,183
Other current liabilities	C21	**44,995**	37,178
		77,676	70,321
Total equity and liabilities[1)]		**245,117**	**214,940**

1) Of which interest–bearing liabilities and post–employment benefits SEK 33,404 million (SEK 21,552 million in 2006).

CONSOLIDATED STATEMENT OF CASH FLOWS

Years ended December 31, SEK million	Notes	2007	2006	2005
Operating activities				
Net income		**22,135**	26,436[1]	24,460[1]
Adjustments to reconcile net income to cash	C25	**7,172**	6,060[1]	10,700[1]
		29,307	32,496	35,160
Changes in operating net assets				
Inventories		**–445**	–2,553	–3,668
Customer financing, current and non–current		**365**	1,186	–641
Trade receivables		**–7,467**	–10,563	–5,874
Provisions and post–employment benefits		**–4,401**	–3,729	–15,574
Other operating assets and liabilities, net		**1,851**	1,652	7,266
		–10,097	–14,007	–18,491
Cash flow from operating activities		**19,210**	18,489	16,669
Investing activities				
Investments in property, plant and equipment	C11	**–4,319**	–3,827	–3,365
Sales of property, plant and equipment		**152**	185	362
Acquisitions of subsidiaries and other operations	C26	**–26,292**	–18,078	–1,210
Divestments of subsidiaries and other operations	C26	**84**	3,086	30
Product development	C10	**–1,053**	–1,353	–1,174
Other investing activities		**396**	–1,070	13
Short–term investments		**3,499**	6,180	6,375
Cash flow from investing activities		**–27,533**	–14,877	1,031
Cash flow before financing activities		**–8,323**	3,612	17,700
Financing activities				
Proceeds from issuance of borrowings		**15,587**	1,290	657
Repayment of borrowings		**–1,291**	–9,510	–2,784
Sale of own stock and options exercised		**94**	124	174
Dividends paid		**–8,132**	–7,343	–4,133
Cash flow from financing activities		**6,258**	–15,439	–6,086
Effect of exchange rate changes on cash		**406**	58	–288
Net change in cash		**–1,659**	–11,769	11,326
Cash and cash equivalents, beginning of period		**29,969**	41,738	30,412
Cash and cash equivalents, end of period	C20	**28,310**	29,969	41,738

1) Minority interest is reported as net income instead of Adjustments to reconcile net income to cash. In 2006, SEK 185 million (2005 SEK 145 million) have been reclassified.

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CONSOLIDATED STATEMENT OF RECOGNIZED INCOME AND EXPENSE

Years ended December 31, SEK million	2007	2006	2005[1]
Income and expense recognized directly in equity:			
Actuarial gains and losses related to pensions	**1,208**	440	−3,221
Revaluation of other investments in shares and participations			
Fair value remeasurement reported in equity	**2**	−1	−3
Transferred to income statement at sale	**—**	—	−147
Cash Flow hedges:			
Fair value remeasurement of derivatives reported in equity	**584**	4,100	−3,961
Transferred to income statement for the period	**−1,390**	−1,990	1,404
Transferred to balance sheet for the period	**—**	99	—
Changes in cumulative translation adjustments	**−797**	−3,119	4,265
Tax on items reported directly in/or transferred from equity	**−73**	−769	1,523
Total transactions reported in equity	**−466**	−1,240	−140
Net income	**22,135**	26,436	24,460
Total income and expense recognized for the period	**21,669**	25,196	24,320
Attributable to:			
Stockholders of the Parent Company	**21,371**	25,101	24,028
Minority interest	**298**	95	292

1) As from January 1, 2006, Ericsson has adopted the new option in IAS 19 to charge actuarial gains/losses to equity. Earlier periods have been restated accordingly.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTENTS

C1 SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements comprise Telefonaktiebolaget Lm Ericsson, the Parent Company, and its subsidiaries ("the company") and the Company's interest in associated companies and joint ventures. The Parent Company is domiciled in Sweden at Torshamnsgatan 23, 164 83 Stockholm.

The consolidated financial statements for the year ended December 31, 2007, have been prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed by the EU, RR 30:06 Additional rules for Group Accounting, related interpretations issued by the Swedish Financial Reporting Board (Rådet för Finansiell Rapportering), and the Swedish Annual Accounts act. Further the Company's financial statements are prepared in accordance with IFRS as issued by IASB.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

In light of the SEC's rule release "Acceptance from Foreign Private Issuers of Financial Statements Prepared in Accordance with International Financial Reporting Standards without reconciliation to US GAAP", which became effective on March 4, 2008, reconciliation of equity and net income is not made to accounting principles generally accepted in the United States (US GAAP), neither in this annual report nor in the Company's annual rapport on form 20F.

The financial statements were approved by the Board of Directors on February 22, 2008. The balance sheets and income statements are subject to approval by the annual general meeting of shareholders.

NEW STANDARDS AND INTERPRETATIONS ADOPTED AS FROM JANUARY 1, 2007

- IFRS 7, Financial Instruments: Disclosures, and a complementary amendment to IAS 1, Presentation of Financial Statements—Capital Disclosures (effective from January 1, 2007). IFRS 7 introduces new disclosure requirements to improve the information about financial instruments.

  The amendment to IAS 1 introduces disclosures about the level of an entity's capital and how it manages capital. The company applies IFRS 7 and the amendment to IAS 1 from annual periods beginning January 1, 2007.

  The new standard, IFRS 7, and the amendment to IAS 1 relate to changes in disclosure or presentation and has therefore not had any impact on financial result or position.

The following IFRICs have been applied as from January 1, 2007:

- **IFRIC** interpretation 7 applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies.

  This Interpretation provides guidance on how to apply the requirements of IAS 29 in a reporting period in which an entity identifies the existence of hyperinflation in the economy of its functional currency.

- **IFRIC 8** scope of IFRS 2.

  This Interpretation applies to transactions when the identifiable consideration received appears to be less than the fair value of the equity instruments granted.

- **IFRIC 9** Reassessment of Embedded Derivatives.

  This interpretation determines when an entity shall reassess the need for an embedded derivative to be separated.

- **IFRIC 10** Interim Financial Reporting and Impairment. An entity shall not reverse an impairment loss recognized in a previous interim period in respect of goodwill or an investment in either an equity instrument or a financial asset carried at cost.

None of the new IFRICs have had a significant impact on financial result or position.

Amendment issued by the Swedish Financial Reporting Board

In March 2007, an amendment to URA 43 Accounting for special payroll tax and tax on investment returns was issued. The amendment had no impact on the Company's financial result or position due to the fact that the Company had applied the principles of this interpretation prior to the amendment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

CHANGES IN FINANCIAL REPORTING STRUCTURE

Business segments

Ericsson reorganized its operating structure as from January 1, 2007. From the first quarter report 2007, the Company's financial reporting has been adapted to reflect this new structure. The Company also took this opportunity to make other modifications to further enhance transparency with additional disclosures.

Ericsson reports the following business segments: Networks, Professional Services, Multimedia and Phones, represented by the share in earnings of Sony Ericsson.

The changed segment reporting is in accordance with the objectives set forth in IAS 14 Segment reporting. The business activities previously reported in Other Operations have been merged into the new segments to better leverage the opportunities provided by internal business combinations.

Business segment Networks includes products for mobile and fixed broadband access, core networks, transmission and next–generation IP–networks. Related network rollout services are also included. In addition, the power modules and cables operations, previously reported under Other Operations, are now included within Networks, as well as the acquired operations of Redback and Entrisphere.

Business segment Professional Services includes all service operations, excluding network rollout reported under Networks. Services for systems integration of IP– and core networks previously reported as network rollout are now reclassified as professional Services. Sales of managed services as a part of the total Professional Services will continue to be disclosed, since this represents service revenues of a recurring nature. The acquired operation of HyC Group has been included in Professional Services.

Business segment Multimedia includes multimedia systems, previously reported under segment Systems, and enterprise solutions and mobile platforms, previously included in Other Operations. The acquired operations of Tandberg TV, Mobeon, LHS and Drutt have been included in Multimedia.

For each of the business segments, the Company has reported net sales and operating margin quarterly. In addition, the Company has continued to disclose sales of mobile systems, including relevant parts of Networks and Multimedia.

The nature of the acquisitions made during 2007, including those acquired within Multimedia, has not resulted in any significant addition or amendment to the accounting policies of the Company.

CHANGES IN ACCOUNTING POLICIES AND REPORTING

Royalty revenues for intellectual property rights

Within the consolidated income statement, royalty revenues for intellectual property rights (IPR) related to products are included as part of Net Sales instead of Other operating income. Accordingly, the related costs, previously reported as part of Research and development expenses, are reported as Cost of Sales or Selling and administrative expenses, depending on the nature of the costs.

Research and development expenses

These were prior to 2007 called "Research and development and other technical expenses" but are from 2007 renamed "Research and development expenses". This change is only related to adoption of IFRS terminology and has not resulted in any changes of amounts.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Statement of cash flows

Cash flow from operations is disclosed as before, but the subtotals "Cash flow from operating investing activities" and "Cash flow before financial investing activities" are no longer reported. Note C25, "Statement of Cash Flows" includes additional breakdown of adjustments to reconcile net income to cash, operating net assets and investing activities.

BASIS OF PRESENTATION

The financial statements are presented in millions of Swedish Krona (SEK). They are prepared on a historical cost basis, except for certain financial assets and liabilities that are stated at fair value: derivative financial instruments, financial instruments held for trading, financial instruments classified as available–for–sale and plan assets related to defined benefit pension plans. Non–current assets and disposal groups held for sale are stated at the lower of carrying amount and fair value less cost to sell.

BASIS OF CONSOLIDATION

The consolidated financial statements are prepared in accordance with the purchase method. Accordingly, consolidated stockholders' equity includes equity in subsidiaries, associated companies and joint ventures earned only after their acquisition.

Subsidiaries are all companies in which Ericsson has an ownership interest and directly or indirectly, including effective potential voting rights, has a voting majority or in which Ericsson by agreement has control of or retains the majority of the residual or ownership risk of the entity. This means that the Company has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. At acquisitions, consolidation is performed from the date control is transferred. At divestments, deconsolidation is made from the date when control ceases.

Intra–group balances and any unrealized income and expense arising from intra–group transactions are fully eliminated in preparing the consolidated financial statements. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

ASSOCIATED COMPANIES AND JOINT VENTURES

Investments in associated companies, where voting stock interest including effective potential voting rights is at least 20 percent but not more than 50 percent, or where a corresponding influence is obtained through agreement, are accounted for according to the equity method. Under the equity method, the investment in an associate is initially recognised at cost and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. Ericsson's share of income before taxes is reported in item Share in earnings of joint ventures and associated companies, included in Operating Income. This is due to that the majority of these interests relate to Sony Ericsson, an interest that is held for non–financial purposes. Ericsson's share of taxes is included in item Taxes. Unrealized internal profits in inventory, as well as other assets in associated companies and joint ventures purchased from subsidiary companies, are eliminated in the consolidated accounts in proportion to ownership. Losses in transactions with associated companies and joint ventures are eliminated in the same way as profits, unless there is evidence of impairment.

Also when associated companies and joint ventures sell to the Company, unrealized internal profits and losses occur. Eliminations are made also of such profits and losses.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Undistributed share in earnings of associated companies and joint ventures included in consolidated equity are reported as Retained earnings, subsequent to acquisition.

BUSINESS COMBINATIONS

At the acquisition of a business, an allocation is made of the cost of the business combination in which fair values are assigned to acquired assets, liabilities and contingent liabilities, for example intangible assets such as customer relations, brands and patents, based upon appraisals made. Goodwill arises when the purchase price exceeds the fair value of recognizable acquired net assets.

As from the acquisition date, goodwill acquired in a business combination is allocated to each of the cash–generating units, or groups of cash–generating units, that are expected to benefit from the synergies of the combination. Corporate assets are allocated to cash–generating units in proportion to each unit's proportion of net sales. An annual impairment test for the cash–generating units to which goodwill has been allocated is performed in the fourth quarter, or when there is an indication of impairment. An impairment loss is recognized if the carrying amount of the cash–generating unit exceeds its recoverable amount. Impairment losses are recognized in the income statement. Impairment losses recognized in respect of cash–generating units are allocated first to reduce the carrying amount of the goodwill allocated to the unit and then to reduce the carrying amounts of the other assets in the unit on a pro rata basis. The recoverable amount of an asset or a cash–generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value. An impairment loss in respect of goodwill is not reversed.

FOREIGN CURRENCY REMEASUREMENT AND TRANSLATION

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Swedish Krona (SEK), which is the Parent Company's functional and presentation currency.

TRANSACTIONS AND BALANCES

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year–end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement, except when deferred in equity as qualifying cash flow hedges or qualifying net investment hedges.

Changes in the fair value of monetary securities denominated in foreign currency classified as available–for–sale are analyzed between translation differences resulting from changes in the amortized cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in the amortized cost are recognized in profit or loss, and other changes in the carrying amount are recognized in equity.

Translation differences on non–monetary financial assets and liabilities are reported as part of the fair value gain or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

GROUP COMPANIES

The results and financial position of all the group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement are translated at average exchange rates; and
- all resulting net exchange differences are recognized as a separate component of equity

There is no significant impact due to a currency of a hyperinflationary economy.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to stockholders' equity. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognized in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

STATEMENT OF CASH FLOWS

The cash flow statement is prepared according to the indirect method. Cash flows from foreign subsidiaries are translated at the average exchange rate during the period. Payments for subsidiaries acquired and/or divested are reported as cash flow from investing activities, net of cash.

Cash and cash equivalents consist of cash, bank and short–term investments and are highly liquid financial instruments that have a remaining maturity of three months or less at the date of acquisition.

REVENUE RECOGNITION

The Company offers a comprehensive portfolio of telecommunication and data communication systems, multimedia solutions and professional services, covering a range of technologies.

The contracts are of four main types:

- delivery–type
- contracts for various types of services, for example multi–year managed services contracts
- Licenses for the use of the Company's technology or intellectual property rights, not being a part of another product.
- construction–type

The majority of the Company's products and services are delivered under delivery–type contracts including multiple elements, such as base stations, base station controllers, mobile switching centers, routers, microwave transmission links, various software products and related installation and integration services. Such contract elements generally have individual item prices in agreed price lists per customer.

Sales are recorded net of value added taxes, goods returned, trade discounts and rebates. Revenue is recognized with reference to all significant contractual terms when the product or service has been delivered,

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

when the revenue amount is fixed or determinable and when collection is reasonably assured. Specific contractual performance and acceptance criteria may impact the timing and amounts of revenue recognized.

The profitability of individual contracts is periodically assessed, and provisions for any estimated losses are made immediately when losses are probable.

For sales between consolidated companies, associated companies, joint ventures and segments, the Company applies arm's length pricing.

Definitions of contract types and related more specific accounting revenue recognition criteria

Different revenue recognition methods, based on either IAS 11 construction contracts or IAS 18 revenue, are applied based on the solutions provided to customers, the nature and sophistication of the technology involved and the contract conditions in each case. The contract types that fall under IAS 18 are:

- Delivery–type contracts are contracts for delivery of a product or a combination of products to form a whole or a part of a network as well as delivery of stand alone products. Medium–size and large delivery type contracts generally include multiple elements. Such elements are normally standardized types of equipment or software as well as services such as network rollout.

  Revenue is recognized when risks and rewards have been transferred to the customer, normally stipulated in contractual terms of trade. For delivery–type contracts that have multiple elements, revenue is allocated to each element based on relative fair values. If there are undelivered elements essential to the functionality of the delivered elements, or, if fair values are not available for all elements, the Company defers the recognition of revenue until all elements essential to the functionality have been delivered or fair values exist for the undelivered elements.

- Contracts for various types of services, include services such as: training, consulting, engineering, installation and multi–year managed services and hosting. Revenue is generally recognized when the services have been provided. Revenue for managed service contracts and other services contracts covering longer periods is recognized pro rata over the contract period.

- Licenses for the use of the Company's technology or intellectual property rights, i.e. not being a part of a sold product. These mainly relate to mobile platform technology and other license revenues from third parties for the right to use the Company's technology in design and production of products for sale. Revenue is recognized based on the number of mobile devices or other products that are produced and made available for the market by the customer.

The contract type that fall under IAS 11:

- Construction–type contracts. In general, a construction type contract is a contract where the Company supplies a customer with a complete network which to a large extent is based upon new technology or includes major components which are specifically designed for the customer. Revenues from construction–type contracts are recognized according to stage of completion, generally using the milestone output method.

EARNINGS PER SHARE

Basic earnings per share are calculated by dividing net income attributable to stockholders of the parent company by the average number of shares outstanding (total number of shares less treasury stock) during the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Diluted earnings per share are calculated by dividing net income attributable to stockholders of the Parent Company by the sum of the average number of ordinary shares outstanding and dilutive potential ordinary shares. Potential ordinary shares are treated as dilutive when, and only when, this reduces earnings per share.

FINANCIAL ASSETS

The Company classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, and available for sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Regular purchases and sales of financial assets are recognized on the settlement date. Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognized at fair value, and transaction costs are expensed in the income statement. Available–for–sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are carried at amortized cost, using the effective interest method.

Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Separate assets or liabilities are recognized if any rights and obligations are created or retained in the transfer.

The fair values of quoted financial investments and derivatives are based on quoted market prices or rates. If official rates or market prices are not available, fair values are calculated by discounting the expected future cash flows at prevailing interest rates. Valuations of FX options and Interest rate Guarantees (IRG) are made by using a Black–Scholes formula. Inputs to the valuations are market prices for implied volatility, foreign exchange and interest rates.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling or repurchasing in the near term.

Derivatives are classified as held for trading, unless they are designated as hedges. Assets in this category are classified as current assets.

Gains or losses arising from changes in the fair values of the "financial assets at fair value through profit or loss"—category are presented in the income statement within Financial income in the period in which they arise.

Loans and receivables

Receivables are initially recognized at fair value and subsequently measured at amortized cost, less allowances for impairment charges. Trade receivables include amounts due from customers. The balance represents amounts billed to customer and amounts where risk and rewards have been transferred to the customer but the invoice has not yet been issued.

Collectibility of the receivables is assessed for purposes of initial revenue recognition.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Available–for–sale financial assets

Available–for–sale financial assets are non–derivatives that are either designated in this category or not classified in any of the other categories. They are included in non–current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Dividends on available–for–sale equity instruments are recognized in the income statement as part of financial income when the Company's right to receive payments is established.

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available–for–sale are analyzed between translation differences resulting from changes in amortized cost of the security and other changes in the carrying amount of the security. The translation differences on monetary securities are recognized in profit or loss; translation differences on non–monetary securities are recognized in equity. Changes in the fair value of monetary and non–monetary securities classified as available–for–sale are recognized in equity. When securities classified as available–for–sale are sold or impaired, the accumulated fair value adjustments recognized in equity are included in the income statement.

Impairment

At each balance sheet date, the Company assesses whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available–for–sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the security is impaired. If any such evidence exists for available–for–sale financial assets, the cumulative loss—measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss—is removed from equity and recognized in the income statement. Impairment losses recognized in the income statement on equity instruments are not reversed through the income statement.

An assessment of impairment of receivables is performed when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivable. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognized in the income statement within selling expenses. When a trade receivable is finally established as uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against selling expenses in the income statement.

FINANCIAL LIABILITIES

Borrowings

Borrowings are initially recognized at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Trade payables

Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

Derivatives at fair value through profit or loss

Certain derivative instruments do not qualify for hedge accounting and are accounted for at fair value through profit or loss. Changes in the fair value of these derivative instruments that do not qualify for hedge accounting are recognized immediately in the income statement within financial expenses.

Financial liabilities are derecognized when they are extinguished, i.e. when the obligation specified in the contract is discharged, cancelled or expires.

DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

Derivatives are initially recognized at fair value at trade date and subsequently re–measured at fair value. The method of recognizing the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Company designates certain derivatives as either:

a) a hedge of the fair value of recognized liabilities (fair value hedge);

b) a hedge of a particular risk associated with a highly probable forecast transaction (cash flow hedge); or

c) a hedge of a net investment in a foreign operation (net investment hedge).

At the inception of the transaction, the Company documents the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Company also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The fair values of various derivative instruments used for hedging purposes are disclosed in Note C20. Movements in the hedging reserve in stockholders' equity are shown in Note C16. The full fair value of a hedging derivative is classified as a non–current asset or liability when the remaining maturity of the hedged item is more than 12 months, and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified as current assets or liabilities.

a) Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The Group only applies fair value hedge accounting for hedging fixed interest risk on borrowings. Both gains or losses relating to the interest rate swaps hedging fixed rate borrowings and the changes in the fair value of the hedged fixed rate borrowings attributable to interest rate risk are recognized in the income statement within Financial expenses. If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortized to profit or loss over the period to maturity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

b) Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in equity. The gain or loss relating to an ineffective portion is recognized immediately in the income statement within financial income or expense.

Amounts deferred in equity are recycled in the income statement in the periods when the hedged item affects profit or loss (for example, when the forecast sale that is hedged takes place), either in Net Sales or cost of sales. When the forecast transaction that is hedged results in the recognition of a non–financial asset (for example, inventory or fixed assets), the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset. The deferred amounts are ultimately recognized in Cost of Sales in case of inventory, or in Depreciation in case of fixed assets. When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss which at that time remains in equity is recognized in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement within financial income or expense.

c) Net investment hedge

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognized in equity. A gain or loss relating to an ineffective portion is recognized immediately in the income statement within financial income or expense. Gains and losses deferred in equity are included in the income statement when the foreign operation is partially disposed of or sold.

FINANCIAL GUARANTEES

Financial guarantee contracts are initially recognized at fair value (i.e. usually the fee received). Subsequently, these contracts are measured at the higher of

- the amount determined as the best estimate of the net expenditure required to settle the obligation according to the guarantee contract, and
- the recognized contractual fee less cumulative amortization when amortized over the guarantee period, using the straight–line method.

The best estimate of the net expenditure comprises future fees and cash flows from subrogation rights.

INVENTORIES

Inventories are measured at the lower of cost or net realizable value on a first–in, first–out (FIFO) basis.

Risks of obsolescence have been measured by estimating market value based on future customer demand and changes in technology and customer acceptance of new products.

INTANGIBLE ASSETS OTHER THAN GOODWILL

These assets consist of capitalized development expenses and acquired intangible assets, such as patents, customer relations, brands and software. At initial recognition, capitalized development expenses are stated at cost while acquired intangible assets related to business combinations are stated at fair value. Subsequent to

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

initial recognition, both capitalized development expenses and acquired intangible assets are stated at initially recognized amount less accumulated amortization/impairment. Amortization and any impairment losses are included in research and development, mainly for capitalized development expenses and patents, Selling and administrative expenses, mainly for customer relations and brands, and Cost of Sales.

Costs incurred for development of products to be sold, leased or otherwise marketed or intended for internal use are capitalized as from when technological and economical feasibility has been established until the product is available for sale or use. These capitalized expenses are mainly generated internally and include direct labor and related overhead. Amortization of capitalized development expenses begins when the product is available for general release. Amortization is made on a product or platform basis according to the straight–line method over periods not exceeding five years. Research and development expenses directly related to orders from customers are accounted for as a part of cost of sales. Other research and development expenses are charged to expense as incurred.

Amortization of acquired intangible assets, such as patents, customer relations, brands and software, is made according to the straight–line method over their estimated useful life, normally not exceeding ten years.

The Company has not recognized any intangible assets with indefinite useful life other than goodwill.

Impairment tests are performed whenever there is an indication of possible impairment. However, intangible assets not yet available for use are tested annually. An impairment loss is recognized if the carrying amount of an asset or its cash–generating unit exceeds its recoverable amount. The recoverable amount is the higher of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows after tax are discounted to their present value using an after–tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Corporate assets have been allocated to cash– generating units in relation to each unit's proportion of total net sales. The amount related to corporate assets is not significant. Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amounts. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount, net of amortization, that would have been determined if no impairment loss had been recognized.

PROPERTY, PLANT AND EQUIPMENT

Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.

Depreciation is charged to income, generally on a straight–line basis, over the estimated useful life of each component of an item of property, plant and equipment, including buildings. Estimated useful lives are, in general, 25–50 years for buildings, 20 years for land improvements, 3 to 10 years for machinery and equipment, and up to 5 years for rental equipment. Depreciation and any impairment charges are included in Cost of sales, research and development or selling and administrative expenses.

The company recognizes in the carrying amount of an item of property, plant and equipment the cost of replacing a component and derecognizes the residual value of the replaced component.

Impairment testing as well as recognition or reversal of impairment for property, plant and equipment is performed in the same manner as for intangible assets other than goodwill, see description under "Intangible assets other than goodwill" above.

Gains and losses on disposals are determined by comparing the proceeds less costs to sell with the carrying amount and are recognized within other operating income and expenses in the income statement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

LEASING

Leasing when the Company is the lessee

Leases on terms in which the Company assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that type of asset, although the depreciation period would not exceed the lease term.

Other leases are operating leases, and the leased assets under such contracts are not recognized on the balance sheet. Costs under operating leases are recognized in the income statement on a straight–line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

Leasing when the Company is the lessor

Leasing contracts with the Company as lessor are classified as finance leases when the majority of risks and rewards are transferred to the lessee, and otherwise as operating leases. Under a finance lease, a receivable is recognized at an amount equal to the net investment in the lease and revenue is recognized in accordance with the revenue recognition principles.

Under operating leases, a balance sheet item of property, plant and equipment is reported and revenue as well as depreciation is recognized on a straight–line basis over the lease term.

INCOME TAXES

Income taxes in the consolidated financial statements include both current and deferred taxes. Income taxes are reported in the income statement unless the underlying item is reported directly in equity. For those items, the related income tax is also reported directly in equity. A current tax liability or asset is recognized for the estimated taxes payable or refundable for the current year or prior years.

Deferred tax is recognized for temporary differences between the book values of assets and liabilities and their tax values and for unutilized tax loss carryforwards. A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences and tax loss carryforwards can be utilized. Deferred tax is not recognized for the following temporary differences: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profits, and differences related to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future.

Deferred tax is measured at the tax rate that is expected to be applied to the temporary differences when they reverse, based on the tax laws that have been enacted or substantively enacted by the reporting date. An adjustment of deferred tax asset/liability balances due to a change in the tax rate is recognized in the income statement, unless it relates to a temporary difference earlier recognized directly in equity, in which case the adjustment is also recognized in equity.

The measurement of deferred tax assets involves judgment regarding the deductibility of costs not yet subject to taxation and estimates regarding sufficient future taxable income to enable utilization of unused tax losses in different tax jurisdictions. All deferred tax assets are subject to annual review of probable utilization. The largest amounts of tax loss carryforwards are originated in Sweden, with indefinite period of utilization.